



Our Weekly Paid Newsletter

Richard Cluver Predicts

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If the weakness of the JSE this week has been troubling you, look no further than Wall Street where rising bond yields have remained the dominant theme as markets awaited Wednesday's interest rate announcement by the US Federal Reserve.

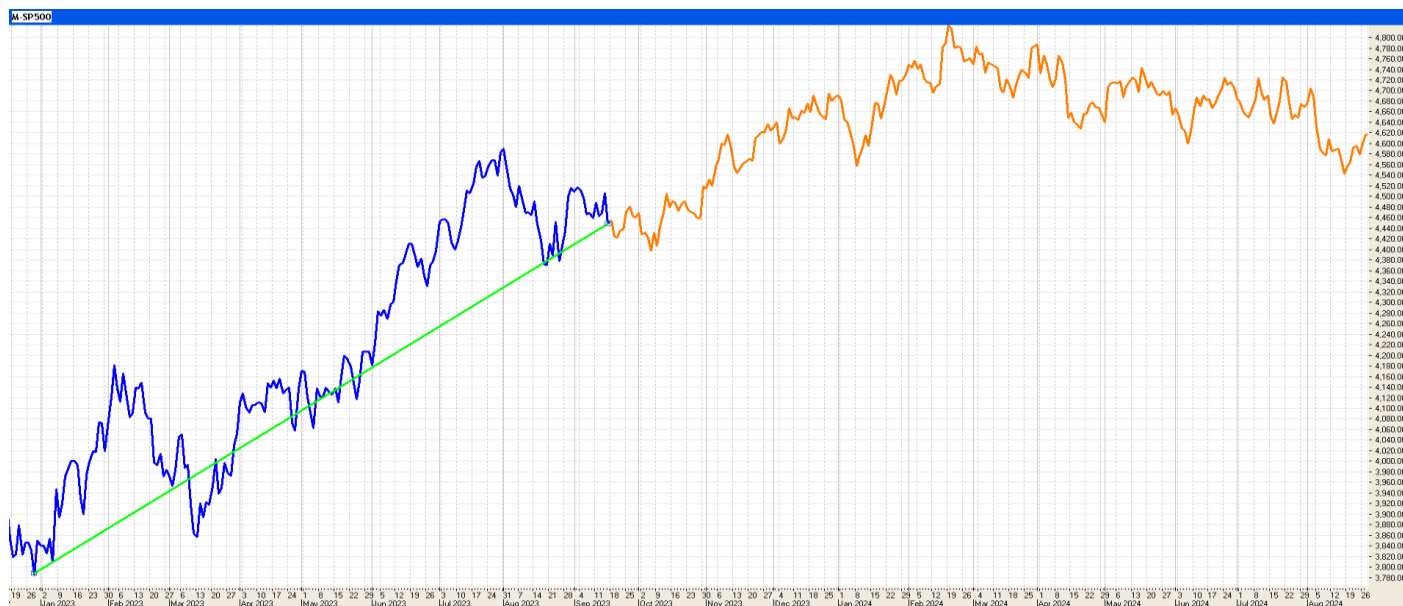
Ominously, early in the week the yield on the 10-year US Treasury rose to a 16-year high of 4.37% while two-year bonds hit a 17-year high of 5.11%. Word on the street was however correctly putting no more than a 50-50 possibility of further interest rate hikes this year as the war on inflation drags on. Furthermore, since the Federal Open Markets Committee has for now opted to keep rates unchanged, take note that it has also signalled the likelihood of another 0.25 percentage point hike later this year, as well as fewer cuts in the next two years than markets had been expecting.

So let's turn to a graph of US 30-year bonds which I always find to be one of the most consistent arbiters of investor sentiment, noting that the early August optimism that yields began showing - from August 22 when the yield averaged 4.45 percent - has since abated.

From August 22 until the end of August the yield fell consistently to a low of 4.22 as investors grew steadily more confident that long-term inflation pressure had been licked. But then the tide changed again and yields began rising just as steadily to peak this week at 4.43 percent. Do note, however in the graph below that ShareFinder remains optimistic of a short-term retreat of yields back to 4.38 percent by mid-October. But do note that green trend line was rising throughout at an average rate of an annualised 68.1 percent compound:



Curiously, since the behaviour of the share market is usually inverse to that of bond yields, the following graph of Wall Street's prime index, the S&P500, rose instead of falling from last December until the end of July when investors began to realise that the war on inflation might not be as easily accomplished as many at the Fed wished them to believe. Importantly, however, the index was rising throughout at only an **annualised 25 percent**: little more than a third of the rate of the bond yield increase. Nevertheless, as my next graph illustrates, ShareFinder expects bullish behaviour to dominate Wall Street shares at least until next February:



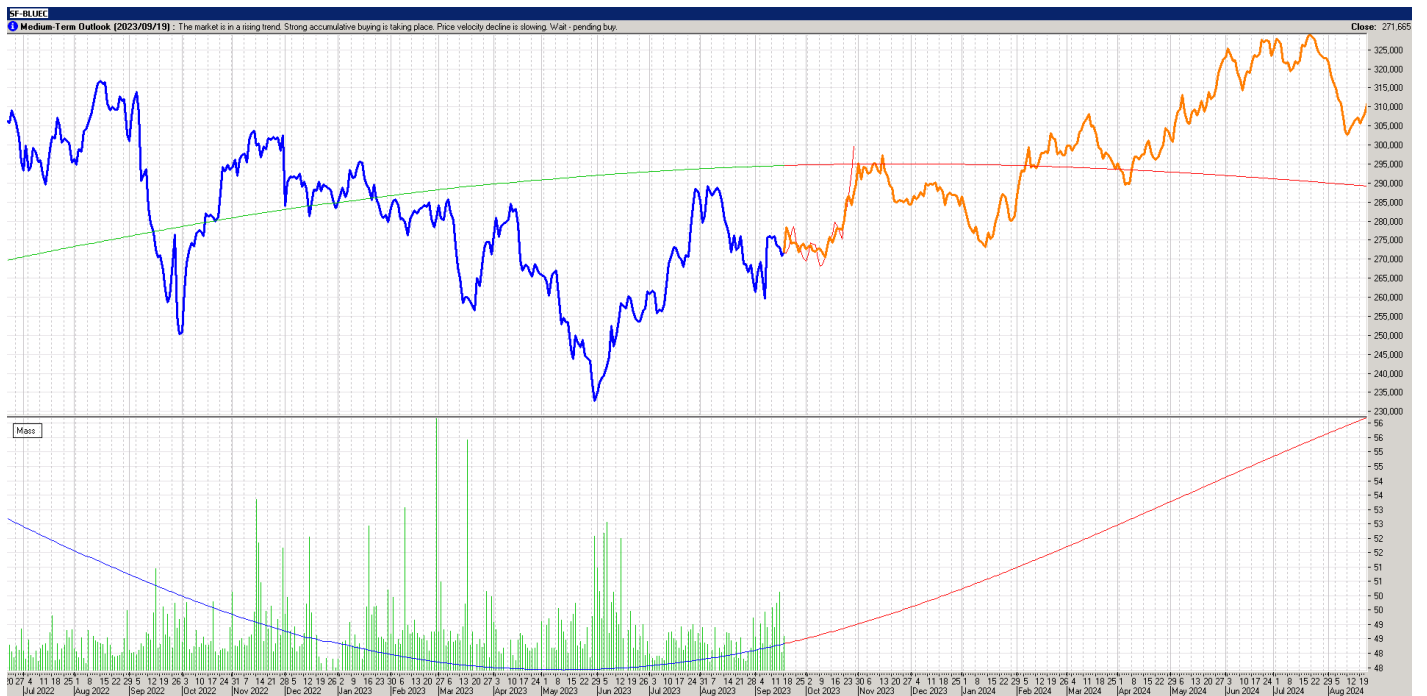
Perhaps investor optimism has something to do with the international oil price which, as measured by Brent Crude, is a significant ingredient in the inflation basket. Recent OPEC activity to cut oil production after crude prices seemed to find a floor at around 75 dollars, saw the daily price soar to \$95 this week. But do note, ShareFinder projects that the oil price increase is slowing and is likely to peak at around \$100 before retreating to the high 80s. That, moreover, is likely to have huge bearing on our local fuel price in October.



All of which takes me to the outlook for the JSE which, like most markets outside the US, has been in a negative trend since the start of this year. Note the ShareFinder projection which suggests there is unlikely to be much positive action before late October and even then our AI-driven system does not see much chance of a break-out from these negative channels.



Happily, however, Blue Chips are not so severely afflicted. They have been rising since the end of May and ShareFinder projects they will continue rising well into the New Year:



The month ahead:

New York's SP500: I correctly predicted the retreat. Now I see a recovery beginning today.

Nasdaq: I correctly predicted an almost unrelenting recovery well into the New Year with the current weakness merely a very short-term event likely to end mid-week.

London's Footsie: I correctly predicted gains which I now expect to end in mid-October followed by volatile weakness until the middle of the New Year.

France's Cac 40: I correctly predicted that the down-turn that began at the end of July was likely to last well into the New Year and in addition saw a short-lived recovery from mid-August which is now over.

Hong Kong's Hangsen: I correctly predicted a modest recovery until late November ahead of a decline to late March.

Japan's Nikkei: I correctly warned of a long-term weakening trend which I still expect to last until mid-April. In the interim I also saw declines until the end of this month followed by a recovery to the end of December but all within a long-term declining trend.

Australia's All Ordinaries: I correctly warned of weakness which I expected to last until late-October ahead of a recovery until early January.

JSE Top 40 Index: I have got this one quite wrong and am wondering which graphs I was last looking at! Like the rest of the JSE the Topi has been in decline since late January and I do not anticipate a turn-around until the end of October. Then I currently see gains until mid-February.

ShareFinder JSE Blue Chip Index: I correctly predicted a brief decline followed by gains until mid-November ahead of a two-month correction and then further gains well into the New Year. I still hold to that!

Rand/Dollar: I correctly predicted gains until early March with interim weakness between late-November to year-end but overall we are in a year-long recovery phase.

Rand/Euro: I correctly predicted that a recovery was imminent and likely to last until March.

The Predicts accuracy rate on a running average basis since January 2001 has been 86.97 percent. For the past 12 months it has been 90.94 percent.

In the Prosus of big changes

Tim Cohen

The CEO of Naspers/Prosus, Bob van Dijk, abruptly left the company today; the company insists it was “by mutual agreement” and that Van Dijk’s decade-long term was “very successful”. Is this just good manners, assuming such a thing exists in the rough and tumble work of tech, or is there something more there to worry about?

This is more than just an issue of lurid speculation because so much of the value of the JSE rides on this company. But the big problem is that it is very hard to tell with the tools we have available.

The most obvious first port of call would be to see what shareholders think and to do that, you would look first and foremost at the share price. But, as followers of the travails of the company will know all too well, the share price is absolutely joined at the hip with the company’s 25% stake in its Chinese investment TenCent. Naspers/Prosus is worth less than that stake and has been now for almost a decade. But what that means is that the Naspers/Prosus share price movement is a function of how TenCent blows in the wind rather than anything it does, including, as it happens, boot the CEO.

To make it even more complicated, there has been a grand simplification, if you can call it that, of the shareholding relationship between Prosus, Naspers, and TenCent. **The result was a hair-raising day last week when the Prosus share suddenly seem to halve in value.** However, this was because the number of shares Prosus held in Naspers was “simplified”, so the actual value of shares in the hands of Prosus shareholders remained more or less the same.

The Prosus/Naspers share price has gone down, but then the value of TenCent has declined a bit too. So what do shareholders actually feel about the departure of Van Dijk? The short-term movement of share price alone does not tell us much. What about the longer-term movement?

I think you have to chalk this up as a major detraction. Van Dijk may have had all kinds of other skills, but the brutal fact is that he never managed to convince shareholders that there was value in Naspers outside its investment in TenCent. Overall, it’s hard to see any value in the share that wasn’t the result of TenCent’s grand rise, and latterly, its decline.

Management took the view - **because it couldn’t possibly be their fault** - that the company’s discount to its net asset value was a consequence of the size of Naspers relative to the SA market. That justified a split in the company with a big chunk emigrating to Holland, which is, by sheer coincidence, Van Dijk’s homeland.

That move didn’t work, you may recall, because the scheme the collective executives came up with was just insane, with an odd cross-holding between Naspers and Prosus. Blame it on tax, and SA’s corporate politics, or whatever. Anyway, the NAV discount improved a bit, but not so much that you would explicitly call it a success. So a new plan was hatched to simplify the structure because now that was the problem. And to do buybacks.

Whether the new simplified structure will reduce the discount remains to be seen, **but in the short term, do we give Van Dijk credit for trying to reverse the lunacy he helped create?** Well, you know, I suppose so. But then why leave just at the precise moment all this simplification comes into force?

And why leave, like, today? Naspers/Prosus chair Koos Bekker told investors this is really a matter of company culture and is also partly in deference to the CEO concerned. If a company announces the CEO is

leaving a year down the line, then they are sort of in a holding pattern for that year with a 'lame duck' at the helm.. **Better to cut the cord immediately.**

Er ... sure. **But now the company has a different problem;** it has an interim CEO in former Chief Investment Officer Ervin Tu, whom I am willing to bet got a very surprising phone call over the weekend. Bekker says Tu has all the powers that Van Dijk had, but does he really? Tu seems like a shoo-in for CEO but still, **the uncomfortable period Van Dijk has been spared has now been inherited by Tu** while he waits to see if he actually nails down the top job and the new strategy yields the anticipated results..

Van Dijk might have been CEO for a decade, a long time for any CEO, but at 50 he is also pretty young and I just don't think you willingly leave a job at the top table of tech, especially when you are earning R200-million-plus a year. **I'm sorry, maybe it's just the journalist in me, but I'm plugging for a massive Succession-style blow-out** with shouting and anger and hair-pulling and good clothes and all the other stuff. I'm probably wrong, but you know, it makes for a better story.

Seriously, **I do actually think Naspers/Prosus' problem is different to the problem they think they have.** The company has ultimately done mostly the right things over the past few years: lots of work has been done setting explicit promises, engaging with shareholders, executing big, big share buybacks. **It's all kinda helped — but it also hasn't.**

Instead of thinking that the board and management are right if only shareholders would make the effort to see the light, **it might help to proceed from the assumption that shareholders are who they are** - the owners of the company - and try to fit the company into what shareholders' think would make a good investment.

Biting that bitter pill would entail giving up on the idea of squeezing blood out of the TenCent turnip by selling it down bit by bit to have lots of lovely boodle to invest in brand new tech toys — a scheme which TenCent shareholders are understandably not crazy about, by the way. **The key to a better understanding of the company is not more explanation or a different structure, but doing the thing empire builders hate doing: splitting it up.**

Naspers/Prosus is such a different company because management has found some fabulous investments in the past, and in fact, TenCent is only one of them. Honestly, you have to give them enormous credit for that. **But history is not destiny, and where we stand today is that shareholders are not quite sure if this is an investment company or an operating company.** Shareholders are not going to notice that the new acting CEO is formerly from mega tech investment house Softbank. **Is it an exciting tech venture or a haphazard amalgamation of dozens of small-ish bets all over the world that no human could possibly understand, let alone manage?**

All in all, I have an odd feeling that over time an even bigger reorganisation could, and possibly should, be on the cards.

Good investing,

Tim Cohen